

CHAPTER XII

Financial Instruments Business (Securities Business)

1. Overview of Financial Instruments Business Operators (Securities Companies) (1)

The Financial Instruments and Exchange Act (FIEA), a comprehensive overhaul of the former Securities and Exchange Act, was fully enforced in September 2007. The FIEA defines the four financial instruments businesses: the Type I Financial Instruments Business, Type II Financial Instruments Businesses, the Investment Advisory and Agency Business, and the Investment Management Business. Securities companies are required to be registered as Type I Financial Instruments Business Operators (Article 29 of the FIEA). What has traditionally been known as the securities business corresponds to Securities Services (Article 28, Paragraph 8) within Type I Financial Instruments. Other Type I Financial Instruments Business include OTC financial futures business (mainly OTC foreign exchange margin business).

The securities business registration system that had been in place since 1948, when the Securities and Exchange Act was first enacted, was replaced by a licensing system in April 1968. The licensing system was designed to help stabilize the management of securities companies by curbing excessive competition and obligating them to specialize (ban, in principle, on concurrently operating non-securities business), thus strengthening the investor protection. As a result, the regulatory regime increasingly took on a defensive bias, and virtually no companies entered the securities business anew.

However, as the securities market developed, the types of financial products handled by securities companies became increasingly diverse. Furthermore, as the years rolled on into the 1990s, customer needs for securities services started to change and vary, from private equity and asset securitization to M&A advisory, asset management, and online brokerage, against the background of the nation's shifting industrial structure, aging population, dying traditional long-term employment practices, and ongoing information technology revolution (such as the proliferation of the Internet).

The licensing system did play a role in stabilizing the management of securities companies. On the other hand, there turned out to be a number of

Table XII-1. The Scope of Business of Securities Companies (Type I Financial Instruments Businesses), and Requirements

1. Type I Financial Instruments Businesses (Article 28 Paragraph 1, Items (i)–(v) of the Financial Instruments and Exchange Act (FIEA))	Securities-related business (FIEA Article 28, Paragraph 8)
<p>(1) Proprietary securities trading, intermediary, brokerage, or agency service of securities, market transactions of derivatives or foreign market derivatives transactions; intermediary, brokerage, or agency service for the entrustment of the transactions listed above; brokerage for the clearing of securities, etc.; secondary distribution of securities; or the handling of public, primary offering or secondary distribution of securities or the handling of the private placement of securities</p> <p>(2) Intermediary, brokerage, or agency service of commodity-related market derivatives trading; intermediary, brokerage, or agency service for the entrustment of the transactions listed above; or brokerage for clearing</p> <p>(3) Intermediary, brokerage, or agency service of OTC derivatives trading and brokerage for clearing of such transactions</p> <p>(4) "Underwriting" of securities</p> <p>(5) Sale or purchase of securities or intermediary, brokerage, or agency service thereof, which is conducted through an electronic data processing system and in which a large number of persons participate simultaneously as a party or parties of the transaction (business of operating a proprietary trading system (PTS business))</p> <p>(6) Acceptance of deposit of securities, etc., in relation to the transactions, etc., listed above or book-entry transfer of stocks or corporate bonds (securities management business)</p> <p>Note: (5) requires approval (Article 30, Paragraph 1). PTS stands for Proprietary Trading System.</p>	<p>Of the Type I Financial Instruments Businesses listed, the business related to securities (in principle, the scope of business which financial institutions are prohibited from conducting).</p> <p>Refusal of Registration (i.e., registration requirements) (Article 29-4, Paragraph 1 of the FIEA, Article 15 of the FIEA Enforcement Order)</p> <p>(1) An applicant who had his/her registration rescinded and for whom five years have not passed since the rescission; an applicant who has been punished by a fine for violating the provision of any applicable law or regulation and for whom five years have not passed since the imposition of the fine</p> <p>(2) An applicant with an officer, etc., who is bankrupt or has received certain criminal punishment and for whom five years have not passed since the completion of the sentence</p> <p>(3) An applicant without appropriate personnel resources to properly conduct the financial instruments business</p> <p>(4) An applicant with stated capital or net worth of less than ¥50 million</p> <p>(5) An applicant that is not a corporation</p> <p>(6) An applicant whose additional business other than incidental or registered/approved concurrent business is found to be against the public interest or to pose difficulty in risk management</p> <p>(7) An applicant whose major shareholder (with 20% or more of voting rights) is disqualified for registration</p> <p>(8) An applicant with a capital-to-risk ratio less than 120%</p> <p>(9) An applicant with a trade name that is the same as or similar to that of an already existing Financial Instruments Business Operator</p> <p>Minimum Capital Requirement (Article 15, Paragraphs 7 and 11 of the FIEA Enforcement Order)</p> <p>(1) When conducting wholesale underwriting as a lead managing underwriter: ¥3 billion</p> <p>(2) All other underwriting: ¥500 million or more</p> <p>(3) Business of operating PTS: ¥300 million</p> <p>(4) All other Type I Financial Instruments Businesses: ¥50 million</p>
2. Incidental businesses (Article 35, Paragraph 1, Items (i)–(xv))	
<p>(1) Lending or borrowing of securities, or intermediary or agency service thereof</p> <p>(2) Making a loan of money incidental to a margin trading</p> <p>(3) Making a loan of money secured by securities held in safekeeping for customers</p> <p>(4) Agency service for customers concerning securities</p> <p>(5) Agency service of the business pertaining to the payment of profit distribution or proceeds from redemption at maturity or at the request of an investment trust</p> <p>(6) Agency service of the business pertaining to the payment of dividends or refunds or distribution of residual assets with regard to investment certificates of an investment corporation (corporate type investment trust)</p> <p>(7) Conclusion of a cumulative investment contract</p> <p>(8) Provision of information or advice in relation to securities</p> <p>(9) Agency service of the business of any other Financial Instruments Business Operator, etc.</p>	<p>(The following items are newly included as incidental businesses under the FIEA.)</p> <p>(10) Custody of assets of a registered investment corporation</p> <p>(11) Provision of consultation to any other business with regard to assignment of a business, merger, spin-off, share exchange or share transfer or intermediation thereof</p> <p>(12) Provision of management consultation to any other business</p> <p>(13) Sale or purchase of currencies and other assets related to derivatives trading or intermediary, brokerage, or agency service thereof</p> <p>(14) Sale or purchase of negotiable deposits or other monetary claims or intermediary, brokerage, or agency service thereof</p> <p>(15) Management of assets under its management as investment in specified assets defined in the Investment Trust Act</p> <p>(16) Provision of customer information obtained from the customer to a third party with the consent of the customer</p> <p>(17) Activities conducted by a Financial Instruments Business Operator that utilize human resources, information and communication technology, equipment, and other management resources pertaining to the financial instruments business</p>
3. Other businesses requiring notification (Article 35, Paragraph 2 of the FIEA; Article 68 of the Cabinet Office Order on Financial Instruments Business, etc.)	
<p>(1) Conducting a transaction on a commodity exchange</p> <p>(2) Conducting a transaction in a derivative contract on a commodity price or other benchmark</p> <p>(3) Money-lending business or intermediary service for lending and borrowing of money</p> <p>(4) Business pertaining to building lots and buildings transaction business and lease of building lots or buildings</p>	<p>(5) Real estate specified joint enterprise</p> <p>(6) Commodity investment management business</p> <p>(7) Business of investing property entrusted under an investment management contract in assets other than securities or rights pertaining to derivatives trading</p> <p>Other 24 activities designated as notifiable businesses as stipulated in Article 68 of the Cabinet Office Ordinance on Financial Instruments Businesses, etc.</p>

Note: A Financial Instruments Business Operator may, in addition to the above, engage in a business for which approval has been obtained from the prime minister (approved business, Article 35, Paragraph 4 of the FIEA).

drawbacks, including a detriment to creativity in business approaches, such as branch network management and the development of new products and services and a lower sense of self-reliance on the side of securities companies. Increasingly concerned about such negative fallout, the government amended the Securities and Exchange Act as part of the Act on Revision, etc. of Related Acts for the Financial System Reform, and a new registration system replaced the licensing system for the securities business in December 1998.

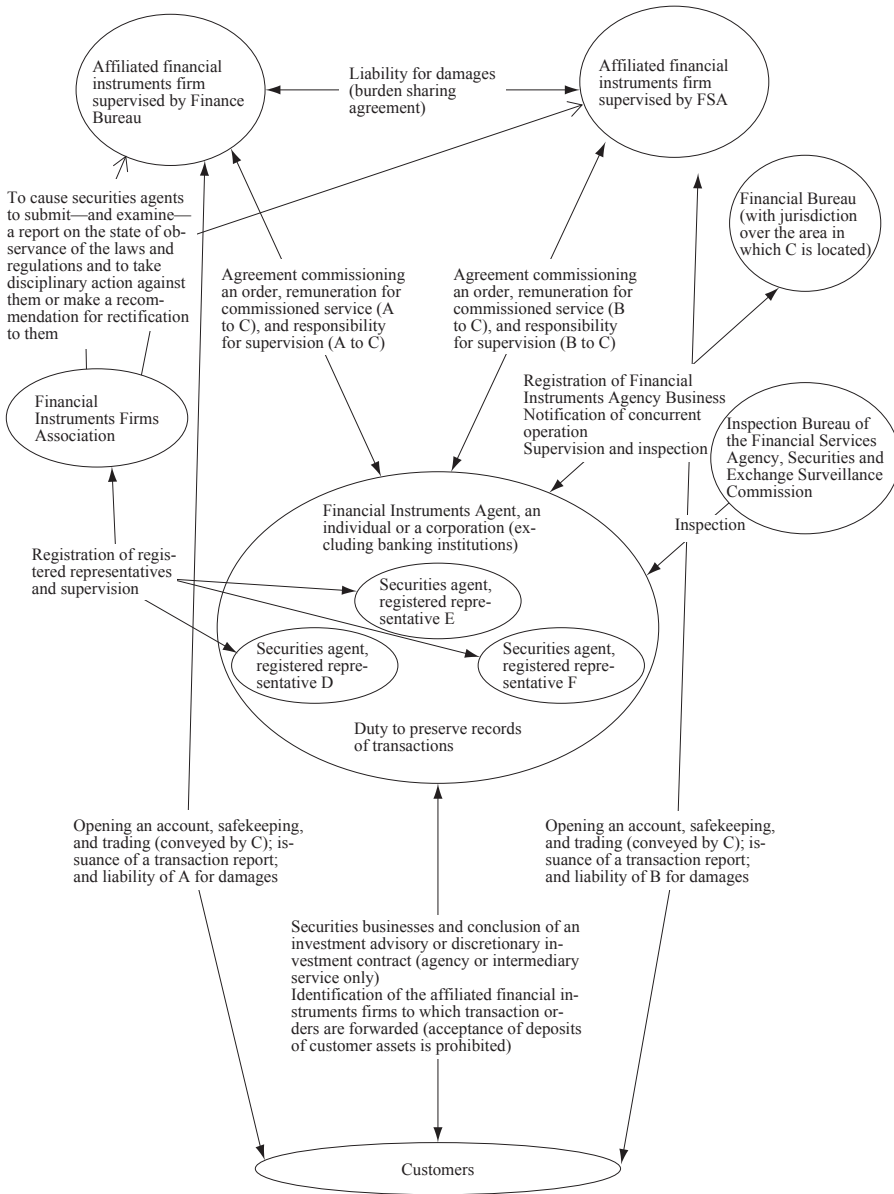
With the objective of providing an equal and uniform investor safeguard across various financial products and services with considerable risk, the FIEA was subsequently enacted to cover a wider range of objects, including collective investment schemes and derivatives trading. The FIEA is comprehensive legislation that combines the Securities and Exchange Act, the Mortgage Securities Business Regulation Law, the Financial Futures Trading Act, and the Investment Advisory Services Act, and aims at achieving effective regulation of a unified financial instruments business across a securities-related industry once vertically segmented into the securities business, financial futures trading business, and investment advisory business. Also as a result of amendments to the Financial Instruments and Exchange Act in 2012, commodity derivatives trading was added to the Type I Financial Instruments Business.

2. Overview of Financial Instruments Business Operators (Securities Companies) (2)

The former securities intermediary service is redefined as “Financial Instruments Intermediary Service” under the FIEA. The term “Financial Instruments Intermediary Service” means services comprising the following acts conducted under entrustment from a Type I Financial Instruments Business, an investment management business, or a registered financial institution (see section 12): (1) intermediation for the sale or purchase of securities (excluding PTS transactions); (2) intermediation for the sale or purchase of securities conducted in an exchange market or market transactions of derivatives; (3) handling of a public, primary offering or secondary distribution of securities or handling of a private placement of securities; and (4) intermediary service for the conclusion of an investment advisory contract or a discretionary investment contract (Article 2, Paragraph 11 of the FIEA). As is common with the items listed above, the provider of the service does not have customer accounts but solicits customers and redirects their orders for transactions to brokers/dealers, etc., from which it receives a commission.

Compared with the former definition for securities intermediary service,

Chart XII-1. An Outline of Financial Instruments Intermediary Service Providers



Note: More than one agreement commissioning an order is allowed.

Source: Compiled on the basis of the data drawn from materials published by the Financial Services Agency.

Table XII-2. Financial Services Intermediary Business

Financial Services Provider Act		Remarks
Article 11.	Definition: To engage in deposit, etc. intermediary business, insurance intermediary business, securities intermediary business, or money lending intermediary business in the course of business.	With one registration, multiple mediation (agency) operations can be performed (one-stop service)
Article 18.	Exemption from registration as an agent for electronic settlement, etc.	On condition that an appropriate and reliable execution system and financial foundation are realized in the firm.
Article 22.	Obligation of depositing security deposit (to secure indemnity resources)	Unlike the financial instruments intermediary business, it does not adopt an affiliation system, so it bears its own liability for compensation.

- Notes: 1. Items that require highly specialized explanations (structured deposits, unlisted stocks, derivatives, etc.) are excluded.
 2. The minimum deposit is 10 million yen and 5% of the previous year's compensation (Article 26 of the Enforcement Order of the Financial Services Provision Law).

an intermediary service for derivatives trading and intermediary service for the conclusion of an investment advisory contract or a discretionary investment contract are newly included in the new financial instruments intermediary service. In spite of the expanded coverage, however, the underlying regulatory principles remain intact. The provisions of the FIEA are designed to ensure the protection of investors by instituting a number of preventive measures. More specifically, they require all financial instruments intermediary service agents to be registered and prevent any disqualified person from becoming an agent. The FIEA makes all agents subject to the same set of prohibited and regulated acts that are applicable to Financial Instruments Business Operators (the prohibition of loss compensation, the duty to observe the suitability rule, etc.); explicitly defines agents under the control and authority of securities companies employing them; and holds these securities companies legally responsible for supervision and damage compensation. The FIEA also gives the regulatory authority power to inspect and supervise financial instruments agents.

Registration requirements for financial instruments agents under the FIEA are essentially identical to those for the securities intermediary service under the former law. The requirements are less stringent than those for Type I Financial Instruments Business Operators to facilitate their market entry. More specifically, (1) either an individual or a legal entity can register as an agent and a legal entity does not need to be a corporation and (2) there are no minimum requirements for capital, net worth, or capital-to-risk ratio. However,

they can only solicit investors for orders and redirect such orders to their broker/dealer. They are not allowed to take a deposit of cash or securities from their customers. (For this reason, they are exempt from joining an investor protection fund.) As is the case with registered representatives of Financial Instruments Business Operators, salespersons of financial instruments agents shall be qualified as registered representatives and register with the Japan Securities Dealers Association (JSDA) (as an Authorized Financial Instruments Firms Association).

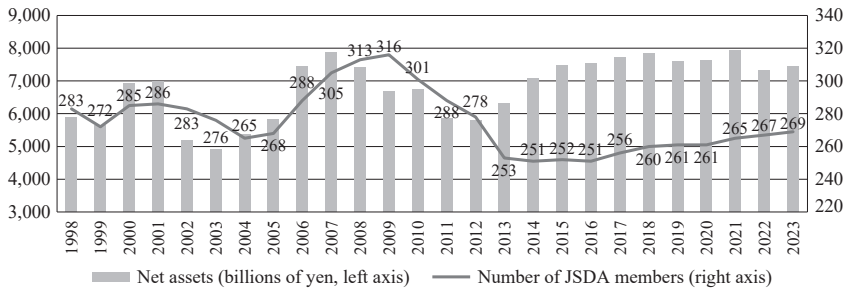
Financial instruments agents may be affiliated with one or more securities companies. As of the end of May 2021, for example, there were 874 actual financial instruments agents (626 companies and 248 individuals), according to the Financial Services Agency's "List of Financial Instruments Intermediary Service Providers. Many of these are mid-tier securities firms and online securities firms that are looking to expand their sales network as intermediaries.

In June 2020, a Financial Services Intermediary Business system was established (the Financial Instruments Sales Act was changed to the Financial Services Provision Act and came into effect in November 2021). This system has enabled one-stop intermediary businesses that provide all banking, securities, and insurance services (registration required), with several important differences compared to the past financial instruments intermediary businesses (see table on the right).

3. Overview of Financial Instruments Business Operators (Securities Companies) (3)

For quite some time after the war, securities companies in Japan had one characteristic in common: heavy reliance on the stock brokerage business both in terms of revenues and business volume. In the process, (1) there developed a bipolarization of securities companies—integrated securities companies that hired a large number of employees and ran multifaceted securities business on a large scale, on the one hand, and small and mid-sized securities companies that relied on the brokerage business generated by commission-registered representatives, on the other—and (2) the large integrated securities companies—Nomura, Daiwa, Nikko, and Yamaichi, collectively referred to as the “Big Four”—captured a large share of the market in all segments of the securities business. And they had gained an oligopolistic control of the market as a group by creating a network of affiliated small securities companies. This was a major characteristic of the postwar securities market of Japan, unknown before the war or in other countries. And this structure was maintained until the latter half of the 1990s with only minor changes.

Chart XII-2. Net Assets and Number of Firms



Note: Excluding firms inactive in business. As of March 31 of each year.

Source: Compiled from “Number of Members and Capitalization”, Japan Securities Dealers Association.

Table XII-3. JSDA Member Categories

(July 31, 2023)

	Securities business operator	Non-securities business operator	Breakdown		
			Investment Management Business	FX (FOREX Margin Transactions)	Others
Domestic brokers: 194 firms	153	41	16	20	5
Foreign brokers: 77 firms	52	25	21	4	0

Note: Non-securities business operator refers to a business operator whose primary business is not the securities business. “Asset Management Service” refers to investment management and sale of structured funds and securitized products. Foreign brokers are foreign-owned firms whose controlling shareholder (author’s estimate).

However, in the 1990s, after the speculative bubble finally burst, the securities slump worsened and Yamaichi Securities and a number of smaller securities companies went bankrupt in the process in 1997 and afterward. In addition, large securities companies abandoned the strategy of forming a network of affiliated small and midsize securities companies, making the management of securities companies increasingly fluid. Around the same time, large banks, etc. acquired the right to manage securities companies while a number of firms that were armed with a unique business style and focused on selected segments of the securities business have entered the market.

In addition, a number of foreign securities companies have opened branches in Japan. Since 1990, some have increased their shares in the equity and derivatives trading markets in their existing securities business, largely

Table XII-4. Breakdown of 150 Japanese Brokers (securities-related) by Controlling Shareholder, Size, Region and Business Characteristics

Independent major securities companies (2 Nomura-affiliated, Daiwa): 3		Bank-affiliated 33 companies		Second-tier small & midsize (face-to-face) 74 companies		Online brokers (including securities which used smartphone) 16 companies
Listed securities companies: 14	Breakdown	Megabank-affiliated: 3	Breakdown	Tokyo: 26	PTS specialists 7 companies	Others 6 companies
		Regional bank-affiliated: 27		Osaka: 5		
		Other bank-affiliated: 3		Regional: 43		

- Notes: 1. Independent major securities companies include Nomura Financial Products & Services, Inc.
2. “Listed securities companies” are securities companies whose shares are listed. If a holding company is listed, its controlling subsidiary is included in “listed securities companies”. However, independent major securities companies and online brokers are excluded. Second-tier small & midsize securities do not include “listed securities”. “Other” is crowdfunding, private equity.

thanks to increases in orders received from their overseas customers. They are playing a major role in new types of business, such as the securitization of assets, packaging structured bonds, and M&A.

Following the introduction of new registration system and the abolition of single-business scheme (in 1998) and the relaxation of the member eligibility requirements of the JSDA (in 2007; see Section 9), entities that do not engage in the securities-related business as their primary business have started to register under the Type I Financial Instruments Business, becoming members of the JSDA. Over the 16 years between April 2007 and March 2023, 169 companies left (as a result of mergers, business transfers, voluntary business closures or deregistration), while 134 companies entered the business (including newly registered companies), reflecting the fluidity of the industry. While there are nine foreign securities companies with operating sites in Japan (as of July 31, 2023), many more foreign entities are actually in operation through the establishment of a local subsidiary, conversion to a Japanese corporation, or acquisition of a domestic securities company (see Table XII-3).

As such, the Japanese securities industry, where the “Big Four” (Nomura, Daiwa, Nikko, and Yamaichi Securities) used to have an oligopolistic control of the market and where brokering was the core and standard operation, changed drastically, resulting in having diverse players, such as foreign entities and banks, hold stakes in securities businesses. And as the securities business itself became increasingly diverse to cover operations other than

brokerage, a growing number of firms whose primary business is not a securities-related business have entered the market.

4. Securities Businesses (1)—The Principal Businesses (1)

“Securities Companies” has come to be redefined as “Financial Instruments Business Operators” under the FIFA, and the scope of the businesses are expanded. Securities business are largely divided into those related to stocks, bonds, investment trusts, and derivatives. By type of services, they are largely divided into those relating to (1) dealing—proprietary trading, (2) brokerage—agency trading, (3) investment banking—underwriting, and (4) public offering and private placement—distribution of securities.

The bulk of the securities-related business of brokers/dealers in the secondary market is the brokerage business of executing customer orders on stock exchanges, and the rest is the proprietary trading conducted for their own account. As not many customer orders for bonds—except for convertible bonds, whose prices are linked to underlying stock prices—are executed on stock exchanges, most bond orders are executed by matching them against the positions of securities companies’ proprietary accounts (bond dealing). Along with stock exchanges, securities companies play an important role in forming fair prices and maintaining the liquidity of securities through their broker/dealer functions.

In addition to underwriting publicly offered new issues of public bonds (government securities, etc.), nonconvertible bonds of private business corporations, and equity securities (stocks and bonds with subscription rights/warrants) of public companies, securities companies also underwrite the shares of companies to be listed on exchanges, etc., in the process of initial public offerings. The term “underwriting” means an act of acquiring a security by a securities company with the aim of ensuring successful issuance of a new security or secondary distribution of shares by reselling them to others and, if so agreed, purchasing the unsold portion of the security, if any. More specifically, the act of acquiring new security from the issuer is called “wholesale underwriting” (and the securities company that negotiates a wholesale underwriting agreement with the issuer is called “the managing underwriter”), and acquiring the security from a wholesale underwriter is called “sub-underwriting.” Beneficiary certificates of investment trusts are also sold in public offerings, in addition to the new-issue securities mentioned above. Secondary distribution means the placing of already issued securities and includes block sales of major shareholders, etc.

In 1998, over-the-counter derivative trading and PTS services were newly authorized. The former refers to an act of effecting or entrusting to effect

Table XII-5. Business Volume Handled by TSE and OSE Member Companies

	Cash Stock Transaction Value (Trillions of yen)			Listed Derivatives Trading (Trillions of yen)
	Proprietary	Agency	Traded on margin (%)	Notional principal (stocks, bonds, etc.)
2018	317	1,349	13	3,152
2019	288	1,218	13	3,218
2020	280	1,514	16	2,778
2021	292	1,653	17	2,985
2022	293	1,815	17	3,046

- Notes: 1. The accounting year runs from April 1 to March 31 of the following year.
 2. Figures are double the actual volume because both sales and purchases are included.
 3. Cash stock transaction volumes are those handled by 88 general members (including foreign securities companies, as of March 31, 2023).
 4. Derivatives trading: 72 Osaka Exchange futures trading members, 20 JGB futures trading members, and 6 commodity futures trading members.

Source: Compiled from Japan Exchange Group's "Summary of Transactions" and "Summary of Financial Statements of General Trading Participants"

Table XII-6. PTS Transactions

(Billions of yen)						
	Trading on Exchange (A)	Trading off Exchange (B)	Total (A)+(B)	PTS transactions (C)	Proportion of PTS Trading off Exchange (C/B)	Proportion of PTS Trading to Total (C/(A+B))
2018	745,182	114,155	859,336	37,339	32.71%	4.35%
2019	671,051	116,223	787,275	44,140	37.98%	5.61%
2020	766,839	125,147	891,986	70,276	56.15%	7.88%
2021	833,316	160,911	994,227	93,489	58.10%	9.40%
2022	861,109	179,645	1,040,754	103,140	57.41%	9.91%

- Notes: 1. The accounting year runs from April 1 to March 31 of the following year.
 2. Figures are actual volume because only one side of the transaction is included.
 3. Major PTSs include SBI Japannext, Cboe Japan and Osaka Digital.
 4. ToSNeT (off-auction trading) enters into Trading on Exchange.

Source: Compiled based on statistical data from the PTS Information Network.

Table XII-7. Electronic record transfer rights and handling services (Securities Token Offering, STO)

What is STO (according to the Japan STO Association website)

STO is a system using technology to provide a service for the needs of new financing methods to replace traditional equity and debt financing and of new financial instruments to replace stocks and bonds in compliance with laws and regulations is a mechanism called STO. This is called “electronic record transfer right” in Japan.

Financial Instruments and Exchange Law (amended in 2019, effective May 2020)

Electronic record transfer rights	“Deemed securities” as defined in Article 2, Paragraph 2, refers to rights that can be transferred using an electronic data processing system, and is positioned as “securities” as defined in Article 2, Paragraph 1. (Article 2, Paragraph 3, etc.).
Electronic record transfer rights	Since the electronic record transfer right falls under Article 2(1), its purchase and sale, brokerage, handling of offering and sale, and deposit, etc., require “registration of change” when a Type 1 firm handles such business (Article 31(4)).

Note: Electronically recorded rights that are not tradable are considered “deemed securities” under Article 2, Paragraph 2, and the business of handling them is positioned as Type 2 Business.

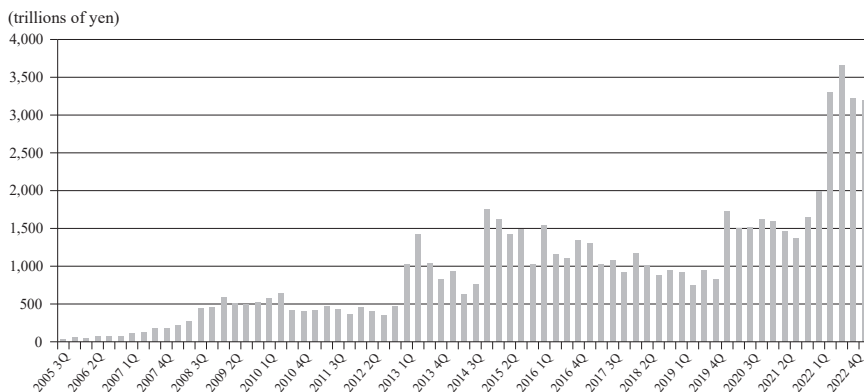
with a customer a forward or options trading of a stock or a stock index or a swap contract involving, for example, a stock index and an interest rate off the exchange. The PTS service matches orders from investors by utilizing an electronic information processing system. It is a licensed system since it requires specialized technical expertise and advanced risk management skills (see Section 1). As information technology has developed, fund-raising via the internet (“crowdfunding,” see Chapter 11, Sections 4 and 5) as well as transactions of digital securities (“electronically recorded transferable rights”), have become more commonplace (see diagram in lower right).

5. Securities Businesses (2)—The Principal Businesses (2)

Because the Financial Instruments and Exchange Act (FIEA) encompasses the Financial Futures Trading Act, the Type 1 Financial Instruments Businesses includes financial futures, etc., as well as securities derivative trading. Moreover, the OTC derivatives business no longer requires authorization from the authorities (for an overview of the OTC derivatives business, see section 9 of Chapter 8).

The underlying assets of derivatives can comprise financial instruments, such as (1) securities, deposits, and currencies (Article 2, Paragraph 24 of the FIEA) and (2) financial indexes, such as price and interest rate of a financial

Chart XII-3. OTC FOREX Margin Transactions



- Notes: 1. Figures compiled based on reports from association members and special members.
 2. Trading volume includes both buy and sell sides, including agency transactions.
 3. Foreign currency amounts have been converted into Japanese yen using the spot rate at the end of each period.

Source: The Financial Futures Association of Japan.

instrument, and weather indexes (Article 2, Paragraph 25). In 2012 the definition of financial instrument was expanded to include commodities (excluding rice), and in 2019, crypto-assets were added, making them subject to the Financial Instruments and Exchange Act. The main customers for derivatives are financial institutions or institutional investors. In addition to acting as swap arrangers, securities companies typically use OTC stock or currency options as sweeteners for structured bond issues or conclude interest rate or currency swap agreements with companies issuing foreign currency denominated bonds when underwriting the issue.

Nikkei 225 mini-futures (Osaka Exchange), and foreign exchange (FX) transactions are among the products that individual investors use relatively often. Investors use OTC FX transactions to purchase or sell currencies by depositing a margin with the broker and settle the transaction usually on a net basis. These OTC transactions got their start in Japan when some commodity traders became the first to use them following the deregulation of foreign exchange transactions through the 1998 amendment of the Foreign Currency and Exchange Law (currently Foreign Exchange and Foreign Trade Act.)

Without any laws or regulations initially, problems did occur in the FX market, resulting in the 2005 revision of the Financial Futures Trading Act, currently included in the Financial Instruments and Exchange Act. The revised law introduced a registration system for the FX business, which elimi-

Table XII-8. OTC CFD Transactions on Securities

	March-end 2015	March-end 2017	March-end 2019	March-end 2021	March-end 2023
Number of Accounts	105,790	148,692	248,497	409,729	836,038
Margin Deposit Balance (100 million yen)	107	161	309	678	1,305

(Transactions)

	Individual stock related	Stock index related	Bond related	Other securities related	Total
From April 2021 to March 2022					
Transaction amount (100 million yen)	8,900	743,264	5,446	1,439	759,049
Number of transactions	1,387,532	34,457,542	67,395	1,545,326	37,457,795
Open interest (100 million yen, end of March 2022)	161	1,341	130	34	1,666
From April 2022 to March 2023					
Transaction amount (100 million yen)	9,134	1,153,394	21,388	1,815	1,185,731
Number of transactions	2,779,101	42,538,691	227,090	1,088,629	46,633,511
Open interest (100 million yen, end of March 2023)	119	1,671	220	33	2,043

Note: Transaction amounts and open interest are on a notional principal basis. Open interest is as of the end of the fiscal year. Figures represent the sum of transaction value, etc. of JSDA regular and special members.

Source: Compiled from materials issued by the Japan Securities Dealers Association.

nated many of the bad operators. As a result, there was a sharp expansion in the use of FX transactions, as can be seen in Chart XII-2. Moreover, in a bid to make FX transactions more transparent, the Tokyo International Financial Futures Exchange (TIFFE, now TFX) listed an FX product in 2005 called Click 365. The ceiling on leverage in FX transactions was lowered to 50 times in August 2010 and again to 25 times in August 2011.

Today, FX transactions, have been shifted from face-to-face transactions with brokers to online. Internet trading specialist FX firms, such as Gaitame.com and Gaitame Online, are, together with internet securities companies, aggressively developing the market. This type of OTC trading, where investors can place orders with low margins and settle the contracts on a net basis, is called contract for difference (CFD transaction) and is available not only for FX but also for securities, indexes, interest rates, and commodities. These transactions, originated in the UK, are handled by various Japanese companies. Since 2018, the number of accounts, margin balance, number of trades

related to individual stocks and stock indexes, and open positions have been rapidly increasing (table on the right).

6. Securities Businesses (3)—Incidental Business, Concurrent Business, and Other Businesses

In addition to the principal businesses outlined in the foregoing, securities companies may conduct businesses incidental to their principal businesses and other businesses that require notification to the authorities. Management of assets of investment trusts, those entrusted under discretionary investment contracts, or properties pertaining to collective investment schemes used to require notification only, but, under the FIEA, securities companies are required to make registration in order to conduct this type of “investment management business” (Article 28, Paragraph 4). Income from non-principal businesses tends to be recorded as “other fees” (see table on the right and following section).

The volume of margin trading, or transactions in securities that are lent on margin to customers or financed by margin loans extended to them accounted for approximately 14 to 20% of agency transactions in the 2000s (see table in Section 4). The term “securities lending and borrowing” refers to the lending and borrowing of stock or bond certificates and is also known as stock lending or bond repurchase agreements (repo). As a lending broker demands a borrowing investor to pledge cash as collateral, these transactions may also be considered as a means of financing secured by stock or bond certificates, and therefore a bond repo transaction is equivalent to a bond gensaki transaction economically. This practice makes it easier for securities companies to finance stocks, bonds, and cash and hence to accept large orders or basket orders from customers. For this reason, it contributes to the formation of fair prices of securities and improves the liquidity of the market. By “consultation with any other business operator with regard to a business assignment, merger, company split, share exchange or share transfer, or intermediation for these matters” is meant the M&A consulting service that an investment bank provides to its clients with respect to the spinning off of a business division, the computation of an IPO price, or an acquisition offer, etc.

Major securities companies of the top- and second-tier brokers, also registered themselves under the investment management service and have started to market “wrap account” discretionary investment services. As of the end of March 2023, according to a survey by the Japan Investment Advisers Association, there were a total of 1,521,632 wrap accounts in the industry, holding approximately ¥14,916.1 billion, reflecting a stable increase. Major brokers, foreign affiliates, and securities subsidiaries of mega-banks focus on M&A;

Table XII-9. Composition and Share of “Other Fees” by Type (FY 2022)

Other Fees	13,458billion yen	Number of companies	Composition	Share
Total		263	37.5%	100.0%
Major General and Wholesale		51	38.7%	74.9%
Independent		2	38.9%	20.5%
Megabank Affiliates		3	26.4%	17.7%
Other bank affiliates		3	58.7%	0.5%
Foreign-affiliated		43	76.1%	36.1%
Mainly Retail		132	14.9%	6.8%
Listed securities		14	16.4%	2.8%
Regional bank affiliated		27	11.8%	0.9%
Small and medium-sized securities		73	10.6%	0.7%
Online securities (including foreign-affiliated)		18	9.2%	2.7%
New business entities		80	44.0%	19.0%
Investment management, fund sales, etc. (Japanese-affiliated)		13	92.8%	1.7%
Investment management, fund sales, etc. (foreign-affiliated)		21	110.2%	15.1%
FX (including foreign-affiliated)		23	10.2%	0.6%
PTS (including foreign-affiliated companies)		10	8.1%	0.1%
Others		13	7.2%	1.4%

- Notes:* 1. Classification criteria are based on “shareholder composition” (independent and listed securities, bank-affiliated, foreign-affiliated, etc.) and “business characteristics”. Listed securities are included if its holding company is listed and it is a controlling subsidiary. Foreign-affiliated securities firms by shareholder composition are 74 (FY2022).
2. “Online securities” includes foreign-affiliated and smartphone securities.
3. “Others” includes OTC derivatives, private equity, crowdfunding, etc.
4. “Composition” is the ratio of “other commissions” to net operating revenues. A number of foreign investment managers have “other fees” exceeding “net business income” by more than 100%.

Source: Prepared based on figures published by each company.

structuring of private equity funds; and securitization, collectively known as investment banking services, along with securities underwriting, which is often conducted in association with these services.

In recent years, investment management companies have increasingly entered the securities-related business, and the percentage of brokerage fees and other fees recorded as “other fees” has been increasing. In terms of income, it is clear that the number of securities companies with diversified business interests is also increasing.

In addition, following the full deregulation of brokerage commissions (in October 1999), low-commission online stockbrokers offering service over the Internet have emerged, and their share of the market has been increasing

Table XII-10. Number of Wrap Accounts and Assets Under Management

(¥100 million)

	Discretionary investment		Investment advisory		Grand Total	
	No.	Amount	No.	Amount	No.	Amount
March-end 2015	307,346	38,973	0	0	307,346	38,973
March-end 2016	482,217	57,776	4	0	482,221	57,776
March-end 2017	564,620	65,700	0	0	564,622	65,702
March-end 2018	716,612	79,841	4	10	716,618	79,853
March-end 2019	868,091	88,271	5	15	868,097	88,287
March-end 2020	1,027,344	87,773	3	7	1,027,347	87,780
March-end 2021	1,178,394	112,079	2	6	1,178,396	112,085
March-end 2022	1,353,137	137,222	241	2,900	1,353,378	140,122
March-end 2023	1,521,367	146,472	265	2,689	1,521,632	149,161

Note: A wrap account is an account that is managed for a flat fee covering fees for investment advisory, trading commission expenses, account management fees, etc. in proportion to the balance of managed assets.

Source: Compiled from statistics produced by the Japan Investment Advisers Association.

rapidly. The number of online brokers stood at 90, with the number of accounts rising to 41 million at the end of March 2023. The value of cash stock and margin transactions of these online brokers during the period between October 2022 and March 2023 amounted to ¥229,245.7 billion, accounting for 24.6% of the total value of agency transactions, and the online brokers sold ¥2,866.8 billion worth of investment trust units according to the JSDA Monthly Report for June 2023. Growth in the business of Internet brokers was particularly notable.

7. Income and Expenditure of Financial Instruments Business Operators (Securities Companies)

Sources of revenue for securities companies include (1) brokerage commission; (2) management and underwriting fees; (3) selling concessions from public offerings and secondary distributions; (4) trading income (net of trading losses); (5) financial income in the form of interest on loans made in conjunction with margin trading and lending fees on shares lent to customers, lending fees on shares and bonds lent in conjunction with transactions other than margin trading (such as repos), collateral for shares or bonds, interest, and dividends and other distributions on securities held in inventory; and (6)

Table XII-11. Financial Overview of Regular Member Firms, JSDA

(Millions of yen)	Fiscal year ending March 1993		FY2022	
	No. of members	Percentage of net operating income	No. of members	Percentage of net operating income
	260		269	
Operating income	2,262,800	100.0%	4,192,592	100.0%
(Commissions received)	1,454,300	64.3%	2,287,533	54.6%
(Brokerage commissions)	888,500	39.3%	510,626	12.2%
(Underwriting fees)	107,200	4.7%	121,518	2.9%
(Selling concession)	133,300	5.9%	165,632	4.0%
(Other fees and commissions)	325,300	14.4%	1,489,756	35.5%
Trading profit/loss	290,400	12.8%	861,187	20.5%
Financial income	518,100	22.9%	1,006,728	24.0%
(Profit from margin trading)	142,800	6.3%	105,424	2.5%
Financial expenses	236,800	10.5%	698,036	16.6%
(Margin trading expenses)	54,100	2.4%	10,895	0.3%
(Interest expense)	141,300	6.2%	100,457	2.4%
Net operating income	2,026,000	89.5%	3,494,556	83.4%
Selling, general and administrative expenses	2,521,300		3,029,071	
(Transaction-related expenses)	371,300		822,970	
(Personnel expenses)	1,101,100		1,031,453	
Operating profit/loss	-495,300		465,484	

other fees and commissions, including those received in connection with incidental or concurrent businesses (agency fees received from investment trust management companies, fees for providing information and advice to client companies on matters such as capital policies or M&A). In the case of overseas companies, income is often received from overseas parent companies.

On the other hand, expenditures of securities companies consist of (1) selling, general and administrative expenses (personnel expenses, rent and other real estate expenses, administrative costs, trade-related expenses, etc.), and (2) financial expenses (interest and fees on brokers' loan and stock certificates borrowed from securities finance companies, etc. in connection with margin trading, interest and fees on brokers' loans and bonds borrowed in connection with repos, interest on bank loans and outstanding bonds, etc.). Revenues generated from the securities business are called "operating income." Subtracting financial expenses from that amount yields "net operating income," and net operating income less selling, general and administrative expenses is

Table XII-12. Breakdown of other fees received (FY2022)

(Total amount)		1,489,756	Ratio (%) 35.5%
Equities		138,422	3.3%
Bonds		141,771	3.4%
Beneficiary securities		320,054	7.6%
Others		889,507	21.2%
	Profit distribution to Japanese corporations, etc. related to international transactions, etc.	310,773	7.4%
	Wrap-related revenues	105,616	2.5%
	M&A related revenues	105,059	2.5%
	Mutual fund trustee fees	98,647	2.4%
	Discretionary investment management fees	54,518	1.3%
	Insurance-related revenues	27,640	0.7%
	Administration fees	25,319	0.6%
	Advisory/Consulting fees	24,438	0.6%
	Investment advisory and agency fees	24,055	0.6%

Notes: 1. JSDA members are no longer required to close their books in March after April 2014; FY2022 corresponds to the fiscal year ending March 31, 2023 under the previous notation.

2. Composition ratio is the percentage of operating revenue.

Note: "Other fees" that cannot be classified by product are further subdivided into "Other."

Source: Compiled from Financial Overview of Regular Member Firms, JSDA

called "operating profit." Nonoperating profit or loss is added to operating profit to reach "current profit." Profit or loss, if any, from the sale of investment securities or real estate holdings and losses due to capital contribution to affiliates, subsidiaries, etc. (such as nonbank lenders) are further added or deducted as extraordinary profit.

Commission income has been on a declining trend over the past thirty years, both in absolute terms and as a proportion of net operating income, while "other fees" have increased. Underwriting fees account for around 4% of net operating income, a large proportion of which is due to investment trust sales. "Other fees" now form the largest revenue stream, including 1) allocation of income from parent companies of foreign securities companies, etc. or brokerage fees for foreign bonds, etc. 2) advisory fees for M&A, 3) agency commission for investment trusts, 4) management fees for investment trusts, discretionary investment advisory fees.

In recent years, the securities business has become increasingly globalized and cooperation with overseas affiliate companies has risen. Investment in foreign bonds by domestic investors has increased, with these transactions

typically executed through overseas affiliate-company intermediaries. The increase in M&A involving Japanese companies and the large-scale entry of investment management businesses and fund distributors, both domestic and foreign (Section 13), with most of their income recorded as “other fees” reflects this trend.

8. Financial Condition of Financial Instruments Business Operators (Securities Companies)

Reflecting—and because of—the uniqueness of their business, the balance sheets of securities companies appear to be larger than they actually are. The biggest items on their balance sheets are “loans against the collateral of securities” and “borrowings against the collateral of securities.” These are deposits made in connection with the lending and borrowing of securities (see section 6). Funds received from the borrower of a bond or other security to secure them are treated as borrowings, while funds deposited with the lender of a bond or other security to secure them are treated as loans. The trading instrument is one that arises from the dealing of securities, and a net long position in cash securities (securities held for trading purposes) is entered on the debit side, and a net short position is entered on the credit side of the balance sheet. Derivatives (futures, options, and swaps) are marked to market, and unrealized gains are entered under the item of derivatives transactions on the debit side and under unrealized losses on the credit side. In case a transaction was not settled after execution, an amount equivalent to the value of securities sold is entered under the item of collateral account on the debit side, and an amount equivalent to the value of securities purchased is entered on the credit side. Securities companies hold both long and short positions in a security for the purpose of speedy execution of customer orders involving cash security, derivatives, or bond repos, as well as the pursuit of arbitrage gains, and, instead of netting them out, they are required to adhere to the trade-date accounting process with stringent risk management on a contract basis.

Incidentally, a loan to facilitate margin trading is made in an amount equivalent to the amount required to make the margin purchase of a security by a customer, and cash collateral is deposited with a securities finance company as a borrowed securities deposit. On the other hand, the cash for conducting margin trading is borrowed from a securities finance company, and it is equivalent to the amount that needs to be paid to a customer for the securities sold on margin.

Securities companies are required to keep customer assets segregated from their own assets and to hold them in an outside trust (see section 11); this

Table XII-13. Major Accounts of Securities Companies in Japan (269 firms) as of March 31, 2023

Assets	In ¥ millions	Liabilities and capital	In ¥ millions
Cash and deposits	13,360,269	Trading products	40,729,252
Deposit	10,431,497	(Trading securities, etc.)	27,066,724
(Segregated customer asset trust)	9,084,626	(Derivatives trading)	13,662,512
Trading products	48,972,144	Collateral-for-contract account	1,486,787
(Trading securities, etc.)	33,244,669	Debt on margin trading	1,616,073
(Derivatives trading)	15,727,459	(Debt for margin trading)	375,096
Collateral-for-contract account	477,040	(Money received for securities lent for margin trading)	1,240,928
Assets for margin trading	4,246,650	Borrowings against the collateral of securities	103,580,683
(Money lent for margin trading)	3,525,426	Deposit received	7,296,710
(Cash collateral deposited to secure the securities lent for margin trading)	721,170	Guarantee money received	7,864,541
Loans against the collateral of securities	115,045,955	Short-term debt	24,124,557
Short-term guarantee money submitted	8,184,912	Total of current liabilities	190,007,161
Short-term loans	1,354,678	Long-term liabilities	8,298,784
Total of current assets	203,825,108	Total liabilities	198,483,695
Tangible fixed assets	229,536	Total Capital	1,817,449
Intangible fixed assets	386,045	Capital surplus	2,918,935
Investment, etc.	1,479,881	Retained earnings	2,854,492
(Investment securities)	975,908		
Total of fixed assets	2,095,665	Total capital	7,437,405
Total of assets	205,921,224	Total of liabilities and capital	205,921,224

Source: Compiled from materials prepared by the Japan Securities Dealers Association. These figures exclude those of companies that have suspended their operations. Totals may not match sums.

system is called “segregated customer asset trust.”

Ceilings on the ratio of individual products to the total net worth were used to control risks. However, as new products have since increased and the lesson was learned from Black Monday of 1987 (the market crash on Wall Street), the industry and the authorities became painfully aware of the need to control risk on a total basis. At the same time, the International Organization of Securities Commissions (IOSCO) called for the international harmonization of securities regulations. Against this backdrop, securities companies have been subjected to requirements for their capital-to-risk ratio. (The requirements were put into effect in 1990, and a law institutionalizing them was enacted in 1992.)

As securities companies handle products whose prices fluctuate in the

Table XII-14. Capital-to-Risk Ratio of General Trading Participant Members of the TSE (86 companies) as of March 31, 2023

The minimum ratio	204.2%
The maximum ratio	3572.0%
The median ratio	425.0%
The average ratio	564.1%
Distribution	
Those in the range of	
100% to 199%	0 company
200% to 299%	11 companies
300% to 399%	27 companies
400% to 499%	16 companies
500% to 599%	7 companies
600% to 699%	9 companies
700% to 799%	6 companies
800% or higher	10 companies

Source: Compiled from materials produced by the Tokyo Stock Exchange.

Table XII-15. An Outline of the Capital-to-risk Ratio Requirements for Type I Financial Instruments Business Operators (Securities companies)

(Article 46-6, Paragraph 1 of the FIEA and Article 178 of the Cabinet Office Order on Financial Instruments Business, etc.)

Capital-to-risk ratio = (non-fixed primary capital ÷ the equivalents of various risks) × 100%	
Non-fixed primary capital = Tier I item (equity capital) + complementary item (subordinated debt, allowance) – deducted assets (fixed assets, etc.)	Equivalents of various risks = market risk + customer risk + fundamental risks
Market risk = risk of loss that may arise from a fall in the prices of securities held by securities companies	
Customer risk = risk of a loss arising from the default by the other party to a transaction effected by securities companies	
Fundamental risks = risks that may arise in the ordinary course of business by mistakes made by members of the administrative department of securities companies	

Note: Large companies having assets totaling more than ¥1 trillion are designated as “Special Financial Instruments Business Operators” and are subject to primary capital regulations on a consolidated basis (Article 57-2, Paragraph 1 of the FIEA; as of June 30, 2023, 24 companies) Among such companies, since the shareholding companies of two groups—Nomura and Daiwa—correspond to the Designated Parent Companies prescribed in Article 57-12, Paragraph 1 of the FIEA (capital ratio against the entire group including the parent company and fellow subsidiaries), they are eligible for selecting the consolidated capital-to-risk ratio under the Basel III Accord.

Table XII-16. Orders Issued on the Basis of the Capital-to-Risk Ratio to Take a Prompt Corrective Action

Capital-to-Risk Ratio		
140% or less	Required to notify the regulatory agency	Art. 179 of the Cabinet Office Order on Financial Instruments Business, etc.
120% or more	Obligated to maintain ratio at such a level	Art. 46-6, Para. 2 of the FIEA
Less than 120%	- Denial to accept a registration application - Orders to change the method of business and deposit its property	Art. 29-4, Para. 1, Item (vi) of the FIEA Art. 53, Para. 1 of the FIEA
Less than 100%	Orders to suspend business for a period of three months or less	Art. 53, Para. 2 of the FIEA
Less than 100% and has no prospects for recovery	Cancellation of registration	Art. 53, Para. 3 of the FIEA

market, their revenues are vulnerable to sudden changes in market prices. Therefore, a framework of capital-to-risk ratio regulations was put into place so that they can maintain their solvency and protect the interests of their customers even when the prices of their assets fall by providing for a sufficient amount of liquid assets against various risk contingencies.

9. Financial Instruments Firms Associations (1)

The former Japan Securities Dealers Association is now regarded as the Authorized Financial Instruments Firms Association under the Financial Instruments and Exchange Act (FIEA). Under the FIEA, the association shall be composed of Type I Financial Instruments Business Operators (excluding OTC financial futures business operators) and must be authorized by the prime minister (Article 67-2, Paragraph 2 of the FIEA). The association aims to ensure the fair and smooth sale and purchase of securities, etc., and to contribute to the protection of investors and is enabled to establish a market where over-the-counter securities are traded (Article 67, Paragraph 1 and 2). The principal functions of the association are (1) self-regulatory operations, (2) businesses that contribute to the development of the financial instruments business and the financial instruments market (3) international businesses and international exchange and (4) dissemination of knowledge of finance and securities (see Table XII-15). At present, the Japan Securities Dealers Association (JSDA) is the country's only organization established as the Autho-

Table XII-17. Principal Functions of the Japan Securities Dealers Association (JSDA)

1. Self-Regulatory Operations	(1) Drawing up and enforcing self-regulatory rules	With a view to facilitating the efficient operation of the financial instruments market, the JSDA establishes various forms of self-regulatory rules applicable to Financial Instruments Business Operators, etc. and endeavors to ensure the fairness and efficiency of trading of financial instruments. The principal rules regulate: OTC trading in stocks and bonds, underwriting of securities, off-exchange trading in listed stocks, safe custody of securities, code of conduct of directors and officers, internal control system of member companies, qualifications and registration of registered representatives, advertising of member companies, solicitation and management of customers of member companies, financial instruments intermediary service, segregation and management of customers' assets, settlement of disputes with customers, and standardized accounting methods of securities-related businesses.
	(2) Auditing, monitoring, and self-regulating	The JSDA audits member companies to see whether they comply with the laws and regulations, the rules of self-regulation in carrying out business activities and other relevant rules and whether they have an adequate internal control system; monitors the operation of member companies and checks to see whether they segregate customers' assets; and takes actions to discipline member companies and their directors and employees who have violated the laws and the rules of self-regulation.
	(3) Qualification tests, qualification renewal training and registration of registered representative	The JSDA conducts qualification tests on registered representatives and on the personnel in charge of management and control, and carries out training for the renewal of qualifications. (The administrative work relating to the registration of registered representatives is commissioned by the prime minister.)
	(4) General improvement of the securities market and performing the market administration functions.	(i) The JSDA establishes and reviews the rules concerning transactions and practices in the over-the-counter market of bonds. JSDA publishes Reference Statistical Prices (Yields) for OTC Bond Transactions. JSDA collects materials and compiles statistics concerning the bond market. (ii) The JSDA implements upgrades and expansion of securitization-related products and Derivatives market. (iii) The JSDA takes steps to ensure the fairness and efficiency of off-exchange trading in listed stocks and the protection of investors. JSDA collects and publishes data on the volume of listed stocks traded off exchange and publicly announces in real time price quotations, contract, and other information on listed shares traded on PTSS (Proprietary Trading Systems). (iv) The JSDA establishes system regarding unlisted stocks (Equity Crowdfunding Scheme, Shareholders Community System, etc.).
	(5) Settlement of securities-related disputes through the mediation of the JSDA and the handling of trade-related complaints of investors	Consultation regarding complaints concerning the business carried out by a member firm or by Financial Instruments Intermediary Service Providers; and mediation of a dispute between a member firm and a customer pertaining to securities transactions (complaint handling and dispute mediation have been commissioned to the Financial Instruments Mediation Assistance Center (FIN-MAC), a non-profit organization).
	(6) Services provided by the authorized personal information protection organization	The organization provides services for the proper handling of personal information of members of the JSDA as an authorized personal information protection organization under the Act on the Protection of Personal Information.
2. Services to promote the sound development of financial instruments business and financial instruments market	(i) The JSDA investigates and studies the financial instruments market and considers institutional problems and tax issues and then publishes opinions. (ii) The JSDA makes public statistical material, etc., on the stock and bond markets. (iii) The JSDA disseminates knowledge about financial instruments, indexes, and markets and educates investors. (iv) The JSDA communicates and exchanges views with market-related organizations. (v) The JSDA supports actions to eliminate antisocial forces. (vi) The JSDA supports regarding as business continuity of the entire financial instruments market.	
3. International business and international exchange	Participates in international conferences, such as those of the International Council of Securities Association (ICSA), Asia Securities Forum (ASF), and International Organization of Securities Commissions (IOSCO), exchanges information with securities-related organizations of foreign countries, and promotes international exchange.	
4. Promotion of public awareness on finance and securities Dissemination and knowledge and learning about financial products	The JSDA facilitates activities to promote public awareness on finance and securities for schools as well as for adults from a fair neutral standpoint so that people would be able to correctly understand knowledge and information about financial products and make proactive judgments on their own.	

Note: The Self-Regulatory Organization is responsible for self-regulatory operations and market administration while the Securities Strategy Board is responsible for operations that promote the sound development of the securities market and the securities business.

Table XII-18. Permissible Forms of Business by Registered Representatives (JSDA Rules: Article 2, Regulations Concerning Qualification and Registration, Etc., of Sales Representatives of Association Members)

Class 1 Sales Representative	Sales representative who is authorized to engage in all acts of a sales representative with the exception of designated over-the-counter transactions of derivatives
Class 2 Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative related to any securities with the exception of stock subscription rights/warrants or covered warrants (excluding Acts of a Sales Representative related to securities derivative transactions or transactions in bonds with options, and limited to the cases prescribed by the detailed rules regarding margin transactions)
Special Member Class 1 Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative related to the business of a registered financial institution (with the exception of designated over-the-counter transactions of derivatives, financial instruments intermediary service of registered financial institution, or brokerage with written orders)
Special Member Class 2 Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative related to transactions of public and corporate bonds, commercial papers, investment trust certificates, etc. (excluding Acts of a Sales Representative related to securities derivatives trading or transactions in bonds with options)
Special Member Class 4 Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative related to “Specified Financial Instruments Business” (marketing of investment trusts and other specified acts of an insurance company or other financial institution)
Margin Trading Sales Representative	Sales representative who is authorized to engage in all Acts of a Sales Representative by a Class 2 Sales Representative and acts of a sales representative relating to margin trading (including “when-issued” trading)

Note: Qualification tests for Special Member Class IV Sales Representative and Margin Trading Sales Representative are not performed (as of July 2023).

rized Financial Instruments Firms Association under the FIEA.

In 1940, the government ordered securities companies to form one securities dealers association in every prefecture for the purpose of facilitating the wartime control of the securities market. After the war, the Japan Securities Dealers Joint Association was established in 1949 as a national federation. In 1968, 33 associations were consolidated into 10, and a single national body, the JSDA, with the 10 associations as regional units, was formed. At present, there are 9 regional associations: Hokkaido, Tohoku, Tokyo, Nagoya, Hokuriku, Osaka, Chugoku, Shikoku, and Kyushu. (The regional associations of Kyushu and South Kyushu were consolidated into one in 1995.)

Since securities company scandals came to light, pressure to strengthen the self-regulatory function of the JSDA has mounted, and the status of the JSDA

was changed from a public-service corporation under the Civil Code to a legal entity under the Securities and Exchange Act, and the Ministry of Finance (currently, the prime minister) commissioned the JSDA to handle the registration of registered representatives in 1992. This helped define the status of the JSDA as a self-regulatory organization of the securities industry. In July 1998, the Bond Underwriters Association of Japan was consolidated into the JSDA, and in July 2004 the JSDA was reorganized into a structure consisting of the Self-Regulation Division, the Securities Strategy Division, and the General and Administration Division. As the JASDAQ Securities Exchange was established (see Chapter 10) in December 2004, the OTC securities market was closed, and the JSDA consolidated the Securities Information Center under its wing in April 2005.

In September 2007, the JSDA became the association authorized under the FIEA, and the scope of membership eligibility was expanded from securities companies to Type I Financial Instruments Business Operators. The association established the Code of Conduct Committee in July 2011 to deliberate the code of conduct of member firms and make proposals. Handling of consultation matters and complaints from users of securities transactions and mediation of disputes between users and members have been commissioned to the Financial Instruments Mediation Assistance Center (FINMAC), a non-profit organization, since February 2010.

Registered financial institutions under the provision of Article 2, Paragraph 11 of the FIEA (see section 12) joined the JSDA as special members in 1994. As of June 2023, the JSDA had 273 regular members, 12 specified business members, and 201 special members (including 118 banks, 14 foreign banks, 38 shinkin banks (credit unions), 9 life insurance companies, 4 property and casualty insurance companies, and 18 others).

10. Financial Instruments Firms Associations (2)

Unlike the Securities and Exchange Act, the Financial Instruments and Exchange Act (FIEA) provides for the comprehensive regulation of a diverse range of collective investment schemes (funds) and investment trust beneficiary certificate sales businesses. Self-offerings by funds, investment trust beneficiary certificates sales businesses, and some other businesses are defined under the FIEA as Type II Financial Instruments Businesses (“Type II Businesses”). Because financial instruments, such as funds, etc., are not highly circulated, the registration requirements for Type II Businesses are lenient, such that even individuals may register as businesses. The underlying assets of funds, investment trust beneficiary certificates, and similar products cover a wide range of real estate, specified instruments, and other assets.

Table XII-19. Numbers of Registered Financial Instruments Business Operators and Related Financial Instruments Firms Associations

Business Category	Number of Registered Firms (as of July, 2023)	Related Financial Instruments Firms Associations		
Type I	304	(Authorized) Japan Securities Dealers Association	273 Regular members (as of July 2023)	
		(Certified) Financial Futures Association of Japan	138 Regular members (as of July 30, 2023)	
		(Certified) Japan Security Token Offering Association	15 Regular members (as of August, 2023)	
Type II	1,209	(Certified) Type II Financial Instruments Firms Association	631 Regular members (as of September 2023)	
Investment advisory and agency business	994	(Certified) Japan Investment Advisers Association	487 Investment advisory and agency members (March 2023)	
Investment management business	428		345 Investment management members (March 2023)	
			(Certified) The Investment Trusts Association, Japan	111 Investment trust members (September 2023)
			100 REIT members (September 2023)	
			6 Infrastructure fund members (September 2023)	
Cryptoasset exchange services, Derivatives trading business		(Certified) Japan Virtual and Crypto assets Exchange Association	Type I member 34 companies (as of August 2023)	
	Total 1,958 (actual number of firms)	2,875 (total number of registrants)		

Notes: 1. Of the 304 Type I businesses, most of the 31 firms that are not members of JSDA are FX Specialists and members of the Financial Futures Association of Japan.

2. Three of the regular members of the Japan Security Token Offering Association are registered financial institutions and special members of JSDA.

3. In addition to regular members, Japan Securities Dealers Association has "Specified Business Members". These are Type I firms that are engaged only in specific businesses. As of July 2023, there are 11 members in total, including those engaged in the specified OTC derivatives business, the Class 1 Small Amount Electronic Offering Business, and the commodity-related market derivatives brokerage business.

4. Among the Type I members of the Japan Virtual and Crypto Assets Exchange Association, 29 companies are crypto asset exchange operators (Article 2, Paragraph 8 of the Payment Services Act).

5. The totals do not add up because single businesses are registered in multiple industries and are members of multiple associations.

Source: Produced using the Financial Services Agency's "List of Certified Financial Instruments Firms Associations" and "List of Registered Financial Instruments Business Operators" and data from associations' websites.

• In addition to the above, there are firms deemed to be Business Operators Engaging in Specially Permitted Business for Qualified Institutional Investors, etc. (the so-called firms handling funds for professional investors) that are not required to register, most of which are not members of any of the above Financial Instruments Firms Associations.

When one or more investor is a Qualified Institutional Investor and other investors (general investors) number 49 or less among investors in a collective investment scheme (fund), under the Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, the financial instruments firm is exempt from registration and may conduct management and self-offering of the fund by submitting notification of such to authorities. (Art. 63, Para. 1 and 2) (See the Financial Services Agency's "List of Qualified Institutional Investors and other Registered Special Business Operators.")

Reference: Essentially, firms or individuals with special investment skills have been allowed to participate in the market without registering and only a duty to submit notification of their businesses in order to enable them to offer their superlative investment instruments to professional investors at low cost. Of course, there are firms or individuals within this group that achieve excellent results and become members of one of the above associations, thereby being covered by self-regulatory rules. However, there are also firms or individuals that clearly have gathered together one (1) Qualified Institutional Investor and 49 individual investors with the intention of using the provisions as a legal loophole to avoid registration of a Type II business or investment management business. Hence the amendments to the FIEA for limiting subscriptions to affluent groups that satisfy certain conditions were promulgated in May 2015 and then enforced in March 2016. After this, wealthy individuals who met certain conditions were able to invest as "professional investors" without the limit on the number of individuals (up to 49) (Cabinet Office Ordinance revised in July 2022).

Registered Type II Businesses, therefore, are not solely securities companies; many real estate companies also have entered the market.

As a result, the number of registered Type II Businesses had risen to 1,209 as of the end of July 2023, exceeding by roughly four times the number of Type I Financial Instruments Businesses (securities business, financial futures trading business, etc., hereinafter referred to as “Type I Businesses”). The lax registration requirements, however, have resulted in lawsuits regarding the solicitation for self-offerings, etc., of funds and other incidents requiring administrative discipline because of legal violations.

To address such issues, the Type II Financial Instruments Firms Association was established in November 2010 and designated as a Certified Financial Instruments Firms Association (FIEA, Article 78, Paragraph 1). The association aims to contribute to the fair and smooth operation of Type II Businesses as well as to their sound development and to investor protection. It was set up taking into account the self-regulatory systems of the self-regulatory organizations (SROs) already in place for Type II Businesses, investment management business, investment advisory and agency business, etc.

Establishing an “authorized” association in Japan requires the authorization of the prime minister of Japan. But “certified” associations are granted certification by the prime minister following their establishment. The Japan Securities Dealers Association is the only “authorized” association in Japan’s securities market. The country’s “certified” associations, however, include the Financial Futures Association of Japan; the Japan Investment Advisers Association; The Investment Trusts Association, Japan; and, of course, the Type II Financial Instruments Firms Association. The major difference between the two types of associations is that “authorized” associations are able to establish and operate OTC securities markets (refer to section 9).

Other than that single difference, “authorized” and “certified” associations carry out the same self-regulatory operations. The associations are responsible for (1) forming rules and regulations, (2) inspecting members to determine their state of compliance with laws and ordinances and self-regulation rules, (3) disciplining members that have violated laws and ordinances and self-regulation rules, (4) resolving complaints and disputes involving members’ businesses, (5) mediating conflicts about members’ businesses, and (6) carrying out sales representative registration operations when so commissioned by the government authorities.

There are 1,958 firms registered under financial instruments businesses in Japan, with some firms being registered under multiple business categories and some being members of multiple SROs. In addition, there are 3,504 organizations classified as Business Operators Engaging in Specially Permitted Business for Qualified Institutional Investors, etc. that are not registered despite carrying out self-offerings of funds just like Type II Businesses (as of

end of June 2023). Since almost all of these Business Operators Engaging in Specially Permitted Business for Qualified Institutional Investors, etc. were not covered by self-regulatory rules, causing troubles to arise, rules were strengthened under the amendment to the FIEA in 2015.

11. Investor Protection Fund

The purpose of an investor protection fund is to protect the credit of general customers from insolvency of the securities companies. As we saw in section 1, the 1998 amendment to the Securities and Exchange Act changed the licensing system of securities companies to a less-demanding registration system for securities business, encouraging non-securities companies to enter the securities market, and relaxed restrictions against conducting side business, liberalizing the lines of business that securities companies can undertake. And this created the need to take measures to protect investors from any unforeseen loss that they may suffer from insolvency of the securities companies they deal with. The government instituted provisions in the 1998 amendment to the Securities and Exchange Act (the present FIEA) with a view (1) to preventing bankruptcy of securities companies, empowering the Financial Services Agency to take a prompt corrective action on the basis of the capital-to-risk ratio (Article 53 of the FIEA) (see section 8) and as a framework to protect investors in case the securities companies they deal with went bankrupt; (2) to requiring securities companies to segregate the customer assets from their own assets (Articles 43-2 and 3); and (3) to establishing an investor protection fund (Articles 79-20 through 80). In line with this, the law concerning the bankruptcy proceedings of financial institutions (Act on Special Measures for the Reorganization Proceedings of Financial Institutions) was amended, and this amended law has become applicable to securities companies.

The system of the segregated custody of securities is designed to recover the assets of customers in preference to other creditors of a security company if it goes bankrupt by holding the cash and securities of its customers separately from its proper assets. It is done in two ways: (1) securities of its customers are managed separately and (2), with respect to a customer's cash and substitute securities deposited with the securities company as collateral for margin trading, etc., that are impossible to physically identify when they are rehypothecated, the securities company trusts in an outside account an amount equal to its customers' claim, net of their liability, to the securities company (this is called the "customer segregated fund"). An effective segregation system should prevent unexpected losses to customers even if their securities company goes bankrupt, but the reference date for calculating the re-

Table XII-20. Investors Eligible for Compensation, Compensation Procedures, and Sources of Funds of the Investor Protection Fund

Those eligible for compensation	(1) Eligible persons (Art. 79-20, Para. 1 of the FIEA)	“General Customer” who conducts a Subject Securities-related Transaction or a Subject Commodity-related Derivatives Trading with a Financial Instruments Business Operator that conducts the securities-related business or commodity-related exchange derivatives trading agency service, etc. (excluding a Qualified Institutional Investor, central or local government, or any other person specified by a Cabinet Order)
	(2) Scope of customer assets eligible for compensation (Art. 79-20, Para. 3)	(i) Money or securities deposited as a margin for exchange transactions of derivatives, etc., or money or securities deposited as guarantee money for margin trading, etc.; (ii) money belonging to the account of or deposited by a customer with regard to a transaction pertaining to the Financial Instruments Business (such as advance payment for purchase, proceeds from a sale that have not been withdrawn, etc.); (iii) securities (securities deposited for sale or held in safekeeping); and (iv) other customer assets specified by a Cabinet Order
Compensation procedures	Notice and recognition (Art. 79-53 and 79-54)	When the Fund receives a notice from a Financial Instruments Business Operator or the Prime Minister, it shall recognize whether or not there is any difficulty for the firm to perform the obligation to return or refund customer assets pertaining to such notice.
	Public notice of recognition (Art. 79-55)	When a Fund has granted recognition to the effect that it is difficult for a notifying Financial Instruments Business Operator to perform the obligation to return or refund customer assets (such a Financial Instruments Business Operator referred to as the “Recognized Financial Instruments Business Operator”), it shall give a public notice that prompts the relevant customers to file a claim for the return or refund of their assets.
	Payment of claims eligible for compensation (Art. 79-57, Para. 4)	A Fund shall, when having made a payment to General Customers, acquire claims eligible for such compensation of the amount commensurate with its payment. The Fund shall collect the claims from the bankrupt Financial Instruments Business Operator through bankruptcy proceedings.
	Loans to a “Notifying Financial Instruments Business Operator” (Art. 79-59)	When the financial position of a “Notifying Financial Instruments Business Operator” has deteriorated to such a point that, while it does not yet face difficulties in returning and refunding customer assets, loans from the Fund could facilitate expedited return or refund, the Fund may make loans to such “Notifying Financial Instruments Business Operator.”
Source of funds	Investor Protection Fund (Art. 79-64 and 79-65)	Burden charges collected from member Financial Instruments Business Operators shall be the source of funds.
	Borrowing (Art. 79-72)	Borrowings from financial institutions may be made with the approval of the Prime Minister of Japan and the Minister of Finance.

Table XII-21. Comparison Between New and Former Systems

	Former System	New System
Name, Year of Establishment	Entrusted Securities Indemnity Fund (August 1969)	Japan Investor Protection Fund (December 1998)
Underlying Entity	Incorporate foundation with no legal basis	Corporation defined under the Securities and Exchange Act (current Financial Instruments and Exchange Act) (must be approved by the Prime Minister and the Minister of Finance)
Membership obligation	Voluntarily by each securities company	Compulsory membership
Contribution	Donation (subject to taxation)	Burden charges (tax deductible as expenses)
Limit of the amount as indemnity (Note)	¥2 billion per bankrupt securities company	¥10 million per customer
Past records	7 cases in and after May 1997 (succeeded by the new fund in December 1998)	<ul style="list-style-type: none"> • Minami Securities (went bankrupt in March 2000); indemnity amount of approximately ¥5.9 billion (including ¥2.4 billion returned from bankruptcy trustee) • Marudai Securities (went bankrupt in March 2012); indemnity amount of approximately ¥170 million

Note: Up till March 2001, however, a special provision on full indemnity was available (Article 4 of Revision Provisions of the Securities and Exchange Act).

Table XII-22. An Outline of the Investor Protection Fund

	Japan Investor Protection Fund	Securities Investors Protection Fund
No. of members (at the time the fund was established)	235 companies (224 domestic and 11 foreign-affiliated companies)	46 companies (1 domestic and 45 foreign-affiliated companies)
Scale of the fund	¥30 billion at the time of establishment; ¥50 billion at the end of March 2001	¥10 billion at the time of establishment (¥3 billion in cash and ¥7 billion guaranteed) and ¥5 billion in cash and ¥5 billion guaranteed after April 2001
Burden charge on members	A fixed amount and a fixed rate of burden charge (computed on the basis of the operating income and the number of registered representatives). The total of annual burden charge is ¥4 billion.	1% of the customer assets, and a bank guarantee of an amount equivalent to 50% of margin trading requirement. When the fund falls ¥1 billion or more short of ¥10 billion, members are asked to contribute an additional burden charge.
Remarks	The fund has taken over the compensation service provided by the Entrusted Securities Indemnity Fund and its entire assets and liabilities.	Members are required to have their books audited by outside auditors.
The two organizations were consolidated in July 2002 into the Japan Investor Protection Fund. As of July 31, 2023, there were 268 member firms and the size of the fund was approximately ¥58.4 billion (end of March 2023).		

placement value of customer segregated funds should be once a week. Moreover, the possibility of misappropriation of customers' funds by a securities company cannot be ruled out.

Therefore, with a view to strengthening the protection of investors, investor protection funds were established as legal entities under the Securities and Exchange Act (currently under the FIEA). To accomplish the above purpose, the investor protection fund (hereinafter referred to as the "fund") will (1) pay a specified amount of money (up to ¥10 million per customer to insure the repayment of his/her assets in the case of bankruptcy of a securities company and (2) make loans to securities companies to facilitate the prompt return of customer assets.

To enable the fund to provide such services, it is empowered by law to (1) perform any and all acts that are necessary to preserve customer assets held by securities companies, (2) become a trust manager of securities companies, and (3) create an "Investor Protection Fund" to secure the necessary funds and collect burden charges from its member companies. Members of the fund must be Financial Instruments Business Operators. More than one investor protection fund may be created, and securities companies must participate in one of them.

12. Securities Operations of Financial Institutions

In 1948, banking institutions were prohibited, in principle, from conducting the securities business under Article 65, Paragraph 1 of the Securities and Exchange Act. As the Banking Act did not explicitly authorize banking institutions to conduct certain business related to public bonds or brokerage with written orders, which were provided for as exceptions to the above prohibition (Article 65, Paragraph 2 of the Securities and Exchange Act), banking institutions (except for trust banks, which could pass their customer orders on to a securities company) did not conduct the securities business. Following the issuance of massive amounts of JGBs since 1975, the government enacted a new Banking Act in 1981, explicitly authorizing banking institutions to trade in public bonds, and it also correspondingly amended the Securities and Exchange Act. Accordingly, banking institutions started selling public bonds over the counter in 1983 and dealing in public bonds in 1984.

Subsequently, the following services have been added to types of securities businesses that banking institutions are allowed to provide: (1) brokerage for transactions in bond futures trading (1988); (2) trading, etc., and involvement in private placement of commercial papers (CPs), foreign certificates of deposit (CDs), beneficiary certificates of mortgage bond trusts, etc. (1992); (3) handling of OTC derivatives of securities and public offerings of beneficiary

Table XII-23. Balance of Investment Trusts, by Seller (as of June 30, 2023)

(¥100 million, %)

	Securities companies		Banks (registered financial institutions)		Direct sales (investment trust management companies)		Total
Stock investment trusts	132,138,787	76.97	38,237,769	22.27	1,302,380	0.76	171,678,936
Bond investment trusts	15,632,587	99.09	143,293	0.91	305	0.00	15,776,185
Total	147,771,373	78.83	38,381,062	20.47	1,302,686	0.69	187,455,121

Note: These figures are only for publicly offered investment trusts. Given the introduction of a negative interest policy by the Bank of Japan, early repayment of MMFs continued, and the balance has been zero since May 2017.

Source: Compiled from the statistics produced by The Investment Trusts Association, Japan.

Table XII-24. Intermediary service's effect on retail sales performance of Mitsubishi UFJMS Securities (Fiscal year ending March 2023)

(¥100 million)	Balance of assets under custody	Number of outstanding accounts (in thousands)	New accounts opened (in thousands)	Sale of stock investment trusts	Individual investor government bonds	Sale of retail foreign bonds
Amount via intermediary	22,643	236	6	1,549	144	1,694
	23,508	255	4	1,771	151	3,154
% of total	5.8%	21.5%	11.3%	12.6%	58.8%	13.6%
	6.1%	21.5%	7.1%	11.7%	49.7%	22.2%

Note: Balance of assets under custody and number of outstanding accounts figures are as of the end of March 2023. Percentages are of total amounts. Assets under custody pertain to domestic sales divisions (including financial institutions). Figures below are for the fiscal term ended March 2022.

Source: Compiled from the Databook provided for the FY2022 investor information meeting of the Mitsubishi UFJ Financial Group.

certificates of investment trusts (1998); and (4) securities agent business (2004; currently the financial instruments intermediary service). The registration system of securities companies and the system of authorizing certain securities businesses instituted in 1998 are also applied to banking institutions. And banking institutions that have registered under this system are called "registered financial institutions." The revised FIEA of 2007 redefined the scope of the securities business prohibited in principle as securities-related businesses (section 1), no material changes to the provisions of law were made (with the only change being the number of the article: Article 65, Para-

Table XII-25. Major Regional Bank-Affiliated Securities Companies

Name of company	Parent bank (investment ratio)	Year established (or the year of making it a subsidiary)	Name of company	Parent bank (investment ratio)	Year established (or the year of making it a subsidiary)
Shizugin TM Securities Co., Ltd.	The Shizuoka Bank Group (100%)	Dec. 2000	Toho Securities Co., Ltd.	The Toho Bank, Ltd. (100%)	January 2016
Daishi Securities Co., Ltd. (former Niigata Securities Co., Ltd.)	The Daishi Bank, Ltd. (100%)	March 2006	Gungin Securities Co., Ltd.	The Gunma Bank, Ltd. (100%)	July 2016
Hachijuni Securities Co., Ltd.	The Hachijuni Bank, Ltd. (100%)	April 2006	Hokuhoku Tokai Tokyo Securities Co., Ltd.	Hokuhoku Financial Group, Inc. (60%)	October 2016
YM Securities Co., Ltd.	Yamaguchi Financial Group, Inc. (60%)	July 2007	77 Securities Co., Ltd.	The 77 Bank, Ltd. (100%)	January 2017
Mebuki Securities Co., Ltd. (former The Joyo Securities Co., Ltd.)	Mebuki Financial Group, Inc. (100%)	November 2007	Kyogin Securities Co., Ltd.	Bank of Kyoto, Ltd. (100%)	March 2017
Hamagin Tokai Tokyo Securities Co., Ltd.	The Bank of Yokohama, Ltd. (60%)	July 2008	Okigin Securities Limited	The Bank of Okinawa, Ltd. (100%)	March 2017
Chugin Securities Co., Ltd.	The Chugoku Bank, Ltd. (100%)	June 2009	Tochigin Tokai Tokyo Securities Co., Ltd. (former Utsunomiya Securities Co., Ltd.)	The Tochigi Bank, LTD. (60%)	April 2017
Hyakugo Securities Co., Ltd.	The Hyakugo Bank, Ltd. (100%)	August 2009	Hirogin Securities Co., Ltd. (former Hirogin Utsumiya Securities Co., Ltd.)	The Hiroshima Bank, Ltd. (100%)	June 2017
Nishi-Nippon City Tokai Tokyo Securities Co., Ltd.	Nishi-Nippon Financial Holdings, Inc. (60%)	May 2010	Kyushu FG Securities, Inc.	Kyushu Financial Group, Inc. (100%)	December 2017
Chibagin Securities Co., Ltd.	The Chiba Bank, Ltd. (100%)	January 2011	Juroku Tokai Tokyo Securities Co., Ltd.	The Juroku Bank, Ltd. (60%)	April 2018
Shikoku Alliance Securities Co., Ltd. (former Iyogin Securities Co., Ltd.)	The Iyo Bank, Ltd. (100%)	February 2012	North Pacific Securities Co., Ltd. (former Joko Securities Co., Ltd.)	North Pacific Bank, Ltd. (100%)	October 2018
FFG Securities Co., Ltd. (former Fukuoka Securities Co., Ltd.)	The Bank of Fukuoka (100%)	April 2012	Nanto Mahoroba Securities Co., Ltd. (former Nara Securities Co., Ltd.)	The Nanto Bank, Ltd. (100%)	October 2018
Senshu Ikeda Tokai Tokyo Securities Co., Ltd.	The Senshu Ikeda Bank, Ltd. (60%)	January 2013	OKB Securities Co., Ltd.	The Ogaki Kyoritsu Bank, Ltd. (100%)	March 2019
Gogin Securities Co., Ltd.	The San-In Godo Bank, Ltd. (100%)	August 2015 (Closed October 2020)	Kiraboshi Life Design Securities Co., Ltd.	Tokyo Kiraboshi Financial Group, Lnc.	December 2019

Source: Compiled based on websites of corporations and newspaper coverage.

graph 1 and 2 became Article 33, Paragraph 1 and 2 of the FIEA).

On the other hand, the 1992 Institutional Reform Law authorized banks, securities companies, and trust banks to enter markets of one another through subsidiaries. Securities subsidiaries of banks were defined as “Specialized Securities Companies” (Article 16-2, Article 52-23 of the Banking Act) and the scope of their businesses was provided to include the “Securities-Related Business” (Article 28, Paragraph 8 of the FIEA), incidental businesses (items (i) through (viii) in Article 35, Paragraph 1 of the FIEA) and businesses required to be notified to the prime Minister (Article 35, Paragraph 2). At first, with a view to preventing potential adverse effects, the regulatory agency (1) restricted the scope of business that the securities subsidiaries of banks may conduct (i.e., the prohibition of stock brokerage, etc.) and (2) required the installation of a firewall between securities subsidiaries and their parents.

The restrictions on the scope of business were lifted in October 1999. Restrictions of the firewall were also eased in phases. In September 2002, the ban on opening banking and securities joint branch offices was lifted. And in March 2005, banks were allowed to introduce customers to securities companies as initial public offering (IPO) candidates (business-led service). In June 2009, the joint position regulations prohibiting officers and employees of securities companies and banks from working on both sides of the firewall were lifted, and the sharing of confidential information relating to corporate customers was permitted. Procedures for sharing of confidential information were simplified in 2022. Recently, not only megabank groups but also regional banks have been entering into financial instruments intermediary service agreements with securities companies in developing joint banking and securities businesses through introducing customers, opening accounts and handling orders.

13. Competition Structure of the Securities Industry

The competitive structure of the Japanese securities industry had been called the “Big Four oligopoly” with four major securities companies commanding the largest share of the market and controlling affiliate networks that consisted of a number of small and medium-sized securities companies. However, the Big Four oligopoly broke down in the 1990s as (1) Yamaichi Securities went bankrupt in 1997; (2) Daiwa and Nikko split up their companies into two divisions in 1998—the wholesale division (providing underwriting, M&A advisory, proprietary trading and other services to corporate customers) and the retail division (providing individual investors with a brokerage service and offering the sale of investment trusts) (Daiwa later reintegrated the divisions); and (3) Nomura, Nikko (later changed name to Nikko Cor-

Table XII-26. Changes in the share of net operating income profits by business type

		Term ending March 1991		Term ending March 1997	
Net operating income (¥100 million)		37,509		24,317	
Domestic securities companies		No of companies	Share of total	No of companies	Share of total
		210	92.4%	225	85.3%
(Exchange Members)	The “Big Four”	4	44.6%	4	47.6%
	Integrated securities companies	42	37.2%	44	28.4%
	Small and Medium Securities companies	83	8.5%	81	5.7%
Exchange Non-members	Small and Medium Securities companies	81	2.1%	77	-0.1%
	Bank-offiliated securities subsidiary			19	3.6%
Foreign securities companies		50	7.6%	56	14.7%
Members		25	6.3%	21	12.4%
Non-Members		25	1.3%	35	2.3%

Source: Compiled from the Securities Bureau of the Ministry of Finance, Nenpo (Annual Report) (Vol.4 Financial Statements) and the JSDA's Financial Overview of Regular Member Firms, Shoken gyoho (Securities Industry Report)

		Term ending March 2008		FY2021	
Net operating income (¥100 million)		37,038		35,969	
Major General and Wholesale		No of companies	Share of total	No of companies	Share of total
		54	78.7%	49	66.1%
	Independent	4	31.4%	2	23.1%
	Megabank Affiliates	7	14.1%	3	25.1%
	Other bank affiliated	3	0.2%	3	0.3%
	Foreign-affiliated	40	33.0%	41	17.5%
Retail Main		173	17.5%	129	20.9%
	Listed securities	16	7.3%	14	6.5%
	Regional bank affiliated	6	0.4%	27	2.7%
	Small and medium-sized securities	137	4.9%	69	2.4%
	Online securities (including foreign-affiliated)	14	4.9%	19	9.3%
New business entities		81	3.8%	86	12.9%
Investment management, fund sales, etc. (Japanese-affiliated)		17	0.3%	18	0.6%
Investment management, fund sales, etc. (foreign-affiliated)		22	1.5%	21	5.4%
	FX (including foreign-affiliated)	19	0.7%	23	2.3%
	PTS (including foreign-affiliated companies)	8	0.3%	9	0.4%
	Others	15	1.0%	15	4.3%

Note: The classification criteria and other information are the same as in the table in Chapter 6.
Source: “Time-Series Analysis of Securities Companies’ Management” (commissioned by JSDA, 2018) written and partly revised by myself. 2021 data calculated from disclosure magazines.

dial), and Daiwa liquidated their holdings of shares in their affiliates. Following an accounting scandal, Nikko Cordial was acquired by Citigroup in 2007 and then was acquired by Sumitomo Mitsui Banking Corporation in October 2009 and became SMBC Nikko Securities.

The conventional business strategy of the former Big Four was to increase their shares in the brokerage market and win the mandate as the lead manager of equity financing by taking advantage of their share in brokerage. To achieve such goals, they sought to build a nationwide network of branches, hire a large number of employees loyal to their company, and lure many member companies of the stock exchanges under their umbrella. However, as such strategy entailed huge costs and risks, only a small number of securities companies could afford to pursue the strategy by providing full-line services (and by diversifying the sources of income thereby). In consequence, there came into existence only a few big and integrated securities companies that adopted the Japanese-style employment system with many affiliated brokers.

The business strategies and management systems proved effective during the period of high growth as a mechanism to supply large amounts of capital into the industry in a timely manner. However, excess capital tends to lead to over-financing, which became evident during the bubble period in the late 1980s. In the 1990s, after the burst of the bubble economy, the fundamentals of the Japanese economy changed (excess capital) and the traditional management strategies and systems had to be reformed. After the collapse of Yamaichi, major securities companies abandoned the strategy of maintaining affiliate networks of small and medium-sized securities companies. The large banks, which had been keen to enter the securities industry, brought the small-, medium-, and second-tier securities companies that had been the Big Four affiliates under their umbrella.

The stock market experienced dissolution of cross-shareholdings and decline of share prices throughout the 1990s. The financial behavior of corporate managers gradually shifted to focus more on “cost of capital,” leading to the reduction of overabundant capital (purchase of treasury stock) and the reallocation of existing capital (disposals of business divisions and M&A). In addition, the overabundant capital, released from companies and absorbed as idle money by the institutional investors, boosted their assets, flowing into foreign bonds and structured bonds which offered higher returns. Foreign securities companies entered the market to provide M&A advisory services or to trade overseas securities. “Trading volume” became less important as a competitive yardstick. The table on the right shows the competitive structure of the industry through changes in the share of net operating income.